

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

DII5018 - INTRODUCTION TO INVESTMENT (For Diploma Students Only)

09 MARCH 2016
9.00 AM-11.00 AM
(2 Hours)

INSTRUCTIONS TO STUDENT

- 1) This question paper consists of **ELEVEN (11) pages** (excluding the cover page).
- 2) There are **TWO (2) sections** in this question paper. Answer **ALL** questions.
Section A : 40 Multiple Choice Questions (40 marks)
Section B : 3 Structured Questions (60 marks)
- 3) For **Section A**, please shade all your answers on the **OMR Sheet** provided.
- 4) For **Section B**, please write all your answers on the **Answer Booklet** provided.

Section A: Multiple Choice Questions, Questions 1 – 40 (40 Marks).

Instruction: Please shade your answers on the OMR sheet provided.

- 1) Which of the following is an example of a tangible asset?
 - A. Bonds
 - B. Mutual funds
 - C. Real estate
 - D. Stocks

- 2) Stocks are a(n) _____ investment representing _____ of a business.
 - A. direct; ownership
 - B. direct; debt
 - C. indirect; ownership
 - D. indirect; debt

- 3) An exchange traded fund that invests in the stocks of large corporations is an example of:
 - A. direct investment.
 - B. indirect investment.
 - C. derivative investment.
 - D. tangible investment.

- 4) Funds in the financial markets are generally supplied by:
 - A. individuals.
 - B. both individuals and business firms.
 - C. business firms.
 - D. the government.

- 5) A rights offering is the _____.
 - A. initial offering of securities to the public.
 - B. offering of new securities to current shareholders on a pro-rata basis.
 - C. sale of newly issued shares of stock to the general public.
 - D. sale of securities directly to a select group of investors.

- 6) Stocks and bonds are traded in _____.
 - A. securities and exchange commissions.
 - B. money markets.
 - C. federal trade commissions.
 - D. capital markets.

Continued.....

- 7) The over-the-counter (OTC) market is a _____
- A. centrally located auction market.
 - B. telecommunications network connecting dealers.
 - C. market solely for institutional traders.
 - D. geographically dispersed auction market.
- 8) The price an individual investor will pay to purchase a stock in the OTC market is the _____
- A. spread.
 - B. ask price.
 - C. bid price.
 - D. broker price.
- 9) When calculating the present value of either a future single sum or a future annuity, the applicable interest rate is usually called the _____
- A. yield to maturity.
 - B. compound interest rate.
 - C. internal rate of return.
 - D. discount rate.
- 10) The most predictable component of stock returns is _____
- A. capital gains.
 - B. capital losses.
 - C. inflation adjusted return.
 - D. dividend income.
- 11) Inflation tends to have a particularly negative impact on the price of:
- A. real estate.
 - B. bonds.
 - C. gold.
 - D. crude oil.
- 12) The risk-free rate is equal to the real rate of return plus _____
- A. an expected inflation premium.
 - B. a risk premium.
 - C. both an inflation and a risk premium.
 - D. the prevailing prime rate.

Continued.....

- 13) If there is no relationship between the rates of return of two assets over time, these assets are _____
- A. positively correlated.
 - B. negatively correlated.
 - C. perfectly negatively correlated.
 - D. uncorrelated.
- 14) If two assets have a coefficient of correlation of -0.4 means:
- A. combining these assets will increase risk.
 - B. combining these assets will have no effect on risk.
 - C. combining these assets may either raise or lower risk.
 - D. combining these assets will reduce risk.
- 15) Which of the following represent unsystematic risks?
- I. The president of a company suddenly resigns.
 - II. The economy goes into a recessionary period.
 - III. A company's product is recalled for defects.
 - IV. The Bank Negara unexpectedly changes interest rates.
- A. I, II and IV only.
 - B. II and IV only.
 - C. I and III only.
 - D. I, II and III only.
- 16) In designing a portfolio, relevant risk is _____
- A. total risk.
 - B. unsystematic risk.
 - C. event risk.
 - D. nondiversifiable risk.
- 17) Stocks that are readily available to the general public and that are bought and sold on the open market are known as _____
- A. initial public offerings.
 - B. publicly traded issues.
 - C. treasury stocks.
 - D. blue chip stocks.
- 18) When a corporation declares a stock split, it usually does so because _____
- A. the firm's retained earnings are excessive.
 - B. there are too many shares of stock outstanding.
 - C. investors sometimes require nontaxable returns.
 - D. it wants to make its stock more affordable to average investors.

Continued.....

- 19) The par or stated value of common stock is important for _____
- A. accounting purposes only.
 - B. helping the investor determine the stock's intrinsic value.
 - C. helping the board of directors determine the dividend payout.
 - D. helping the market determine the trading price of the stock.
- 20) The value that investors place on a stock is called its _____
- A. book value.
 - B. investment value.
 - C. liquidation value.
 - D. par value.
- 21) The three steps in determining a stock's intrinsic value are:
- I. estimating the stock's future cash flows.
 - II. estimating the risk associated with future cash flows.
 - III. careful analysis of patterns in the stock's recent price history.
 - IV. estimating an appropriate discount rate to apply to future cash flows.
- A. III and IV only.
 - B. I, II and IV only.
 - C. I, III and IV only.
 - D. I and III only.
- 22) The security analysis process should help investors to:
- I. purchase investments that are priced at or above their intrinsic value.
 - II. sell investments that are priced at or above their intrinsic value.
 - III. purchase investments that are priced at or below their intrinsic value.
 - IV. identify investments appropriate for their goals.
- A. I and IV only.
 - B. II and III only.
 - C. I, II and III only.
 - D. II, III and IV only.
- 23) The government has an expansionary economic policy when it _____
- A. increases taxes.
 - B. increases government spending.
 - C. promotes rising interest rates.
 - D. limits exports of goods and services

Continued.....

- 24) The stage in an industry's growth cycle in which product acceptance is spreading, investors can foresee the industry's future, and overall economic variables have little to do with the industry's overall performance, is known as the _____
- A. initial development stage.
 - B. rapid expansion stage.
 - C. mature growth stage.
 - D. stability or decline stage.
- 25) Investment analysts who believe that a thorough investigation of a company's financial condition, product development, management and other intrinsic factors can discover stocks that are priced above or below their intrinsic value are advocates of _____
- A. fundamental analysis.
 - B. behavioral analysis.
 - C. the efficient market hypothesis.
 - D. technical analysis.
- 26) Which of the following types of risk affect bonds?
- I. Call risk.
 - II. Business risk.
 - III. Purchasing power risk.
 - IV. Liquidity risk.
- A. III and IV only.
 - B. II, III and IV only.
 - C. I, III and IV only.
 - D. I, II, III and IV only.
- 27) Debentures are backed by:
- A. the issuer's good name and promise.
 - B. earnings from the project the debentures were issued to finance.
 - C. financial assets held in trust by a third party.
 - D. physical assets like real estate.
- 28) A note is generally defined as debt with an initial term to maturity of:
- A. zero to two years.
 - B. one year or less.
 - C. two to ten years.
 - D. ten to thirty years.

Continued.....

- 29) An increase in the market rate of return on an outstanding bond will _____
- A. increase the coupon rate.
 - B. decrease the coupon rate.
 - C. increase the bond price.
 - D. decrease the bond price.
- 30) Which type of risk is based on the financial integrity of a bond issuer?
- A. Liquidity risk.
 - B. Call risk.
 - C. Default risk.
 - D. Interest rate risk.
- 31) Market segmentation theory explains the typical upward sloping shape of yield curves as a function of:
- A. normally greater demand for long-term bonds than for short-term notes.
 - B. normally greater demand for short term notes than for long-term bonds.
 - C. expectations that inflation will be higher in the future than it is now.
 - D. the greater liquidity of short-term notes as compared to long-term bonds.
- 32) Which of the following factors influence short-term interest rates on government securities?
- I. Federal Reserve actions.
 - II. Interest rate risk.
 - III. Expected future inflation.
 - IV. The real rate of return.
- A. I and III only.
 - B. II and IV only.
 - C. I, II and IV only.
 - D. I, III and IV only.
- 33) The expectations hypothesis states that investors _____
- A. require higher long-term interest rates today if they expect higher inflation rates in the future.
 - B. expect higher long-term interest rates because of the lack of liquidity for long-term bonds.
 - C. require the real rate of return to rise in direct proportion to the length of time to maturity.
 - D. normally expect the yield curve to be downsloping.

Continued.....

- 34) If you are an income-oriented investor and you feel that interest rates are relatively high and will decline in the future, you should purchase _____
- A. zero-coupon, long-term bonds.
 - B. long-term, non-callable bonds.
 - C. short-term, zero-coupon bonds.
 - D. long-term, freely callable bonds.
- 35) Reasons for using a bond ladder strategy include:
- I. typically higher rates on long-term bonds.
 - II. uncertainty concerning future interest rates.
 - III. lower tax rates on bonds held to maturity.
 - IV. reducing the amount of time spent managing the bond portfolio.
- A. I and III only.
 - B. II and IV only.
 - C. I, II and III only.
 - D. I, II and IV only.
- 36) Which of the following characteristics apply to closed-end mutual funds?
- I. Unlimited number of outstanding shares.
 - II. Transactions between shareholders.
 - III. Market prices may be higher or lower than Net Asset Value.
 - IV. Fund will repurchase shares at any time.
- A. I and IV only.
 - B. II and III only.
 - C. I, II and III only.
 - D. II, III and IV only.
- 37) Which of the following characteristics apply to exchange traded funds (ETFs)?
- I. Unlimited number of outstanding shares.
 - II. Typically track the performance of some index
 - III. Market prices may be higher or lower than Net Asset Value.
 - IV. May invest in the whole index or use a sample of securities to track the index as closely as possible.
- A. I and II only.
 - B. II and III only.
 - C. I, II and III only.
 - D. I, II and IV only.

Continued.....

- 38) Closed-end funds are _____
- A. less liquid than open-end funds.
 - B. best purchased when they are selling at a premium.
 - C. purchased directly from the funds' manager.
 - D. traded at Net Asset Value.
- 39) A unit investment trust _____
- A. engages in short-term trading within a particular sector.
 - B. offers a low-cost, diversified portfolio.
 - C. is an unmanaged portfolio of securities.
 - D. is used only for fixed-income securities.
- 40) Which type of mutual fund consists of both stocks and bonds with a combined objective of current income and long-term capital gains?
- A. Equity-income Fund.
 - B. Balanced Fund.
 - C. Value Fund.
 - D. Bond Fund.

[TOTAL: 40 MARKS]

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Section B: Three (3) Structured Questions.*Instruction: Please write all your answers in the Answer Booklet provided.***QUESTION 1**

- a) Calculate the beta for portfolio A and B

Assets	Assets Beta	Portfolio Weights (%)	
		Portfolio A	Portfolio B
1	1.30	30	10
2	0.70	25	20
3	1.20	15	30
4	1.30	30	40

[TOTAL: 10 MARKS]

- b) Given the information below:

Use the capital Asset Pricing Model (CAPM) to find the required rate of return for the following securities:

Security	Risk free rate (%)	Market return (%)	Beta (β)
A	8	12	0.90
C	12	13	1.20
E	7	8	-0.80
H	9	14	1.30
K	6	15	0.80

[TOTAL: 10 MARKS]**Continued.....**

QUESTION 2

Mr. Kevin has decided to take advantage of the potential of margin account. He opened broker account and secure a margin loan. The details of the account are as follows:

- Initial margin requirement is 60%.
- Maintenance margin is 50%.
- If account position falls below 50%, margin call will occur and customer will be informed.

Mr. Kevin has been following the price movement of stock over the past year and he believes that it is currently undervalue. Mr. Kevin decided to purchase 5, 000 shares of the stock at the market price of RM 25 per share.

Based on the following information above, answer the followings:

- a) Calculate the value of investment of the stock, if Mr. Kevin **DID NOT** use the margin facility.
(1 mark)
- b) If Mr. Kevin decided to use the margin facility, calculate the debit balance and cash equity needed to purchase the stock.
(2 mark)
- c) If Mr. Kevin uses the margin facility and the stock price rises by RM 3.00 per share, calculate the capital gain earned and return on the investor's equity.
(3 marks)
- d) What is the current margin percentage, when the stock price increase in (c)?
(2 marks)
- e) Given the maintenance margin above, how far does the stock price have to fall before Mr. Kevin faces margin call? Explain your answer.
(4 mark)
- f) Based on (e), calculate the capital gain/ (loss) earned and return on the investor's equity.
(3 mark)

[TOTAL: 15 MARKS]

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QUESTION 3

KLM Ltd. has a net profit of RM 20 million, sales of RM 250 million, and 2 million shares of common stock outstanding. The company has total assets of RM 80 million and total stockholder's equity of RM 40 million. KLM Ltd. Pays RM 1.30 per share in common dividend and the stock trades at RM 15 per share. Given this information, determine the following:

- a) Earnings per share (EPS). (2 marks)
- b) Price to earnings (P/E) ratio. (2 marks)
- c) Net profit margin. (2 marks)
- d) Book value per share and price to book value ratio. (3 marks)
- e) The stock's dividend payout ratio and dividend yield. (3 marks)
- f) Total assets turnover and return on equity. (3 marks)

[TOTAL: 15 MARKS]

QUESTION 4

	Investment Vehicle	
	Common Stock	Bond
<u>Cash received (RM):</u>		
1 st Quarter	1.00	1.00
2 nd Quarter	1.50	0.00
3 rd Quarter	1.20	2.50
4 th Quarter	2.00	0.00
<u>Investment Value (RM):</u>		
End of year	30.00	50.00
Beginning of year	28.00	30.00

- a) Calculate the holding period return for the above two investment alternatives. (8 marks)
- b) Based on your answer in (a), which investment vehicle should you choose and why? (2 marks)

[TOTAL: 10 MARKS]

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